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U.S. Department of Energy
Washington, DC 20585

RULES PROCESSING TEAM

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Department of the Interior
Minerals Management Service
Mail Stop 4024
Elden Street
Herndon, VA. 20170-4817
Attention: Rules Processing Team

Subject: Proposed Rule Concerning Deepwater Outer Continental Shelf Leases After November 2000 With Royalty Suspensions.

The Department of Energy (Department or DOE) welcomes the opportunity to comment on the Department of the Interior's Minerals Management Service's (MMS) proposed rule (65 FR 55476 - 55489) for future deepwater royalty relief. The Department applauds MMS' efforts to continue this highly successful program initiated by the Outer Continental Shelf Deepwater Royalty Relief Act of 1995 (the "Act").

The Importance Of The Deepwater Gulf of Mexico

DOE's Energy Information Administration (EIA) projects that in 2015 the U.S. will consume 24 million barrels of oil per day (8.7 billion barrels per year), and 30 trillion cubic feet of natural gas per year. Compared to 1999, this represents a 23 percent increase in our consumption of oil and a 39 percent increase in our consumption of natural gas. Unfortunately, however, as the country continues to increase its demand for oil and natural gas, it becomes ever more dependent on foreign suppliers. EIA forecasts that natural gas imports will remain at 16 percent of U.S. consumption from 1999 to 2015, while oil imports will increase from a little over 50 percent to over 60 percent during the same time period.

As the U.S. looks to this future of greater demand for oil and natural gas, and ever-increasing reliance on foreign oil suppliers it is the deepwater in the Gulf of Mexico (GOM) that takes on even greater importance in terms of its contribution to domestic petroleum supplies. While every other major domestic petroleum province is expected to decline, the deepwater GOM is expected to increase both oil and natural gas production. EIA forecasts that deepwater (greater than 200 meters) oil production will almost double from 192 million barrels in 1999 to 363 million barrels in 2015. During the same period, deepwater natural gas production is projected to

increase from 0.5 TCF to 2.3 TCF.[1]

Deepwater Royalty Relief

In the last ten years, the GOM has been transformed from a petroleum province that appeared to be approaching a state of decline to one of the primary growth areas for oil and natural gas production in the U.S. The main reason for this change was the ability of the domestic petroleum industry to go into ever-deeper waters with new cutting-edge technologies developed in recent years. Here, the deepwater royalty relief initiated in 1995 played a central role in helping the industry take on the huge financial and technological risks associated with these deepwater ventures. This partnership between MMS and industry has benefitted the industry by sharing the risk of developing these deepwater frontier areas, and by allowing greater numbers of medium and smaller operators to compete for deepwater leases. The nation has benefitted by the billions of dollars of new royalty revenues going to the federal treasury, the thousands of jobs associated with these ventures, as well as by the new supplies of oil and natural gas produced to meet the nation's petroleum needs.

MMS's Proposed Rule

With the mandatory royalty suspension program for deepwater properties due to expire after November 2000, DOE supports MMS's efforts in this proposed rule to develop new deepwater royalty relief provisions to continue this successful program. The Department, through its ongoing oil and natural gas research and development programs addressing offshore technologies, recognizes the critical need for the continued partnership between MMS and industry to share the risks and benefits of deepwater development.

DOE views the royalty relief program as going hand-in-hand with its own efforts to support the industry in developing the newer and better technologies needed to continue its exploration and development of the GOM's deepwaters. The Department has recently undertaken a major new R&D initiative called the Offshore Technology Roadmap ("OSTR") with the industry, various agencies in the Federal government including MMS, national laboratories, investors, and consumers to support U.S. commercialization of new technologies for deep and ultra-deepwater development. Selected financial support, such as deepwater royalty relief, is a vital component of this initiative.

With respect to the details of the proposed rule, DOE recognizes MMS's efforts to provide consistency and clarity to future royalty relief to minimize the industry's uncertainty in weighing the relief as part of its economic decision-making processes. We strongly support providing as much certainty and clarity as possible to future royalty relief provisions.

DOE also recommends that MMS continue to keep an open mind with respect to possible royalty

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[1] Note, that in its modeling analysis underlying these forecasts EIA assumes that deepwater royalty relief will continue to be available to support deepwater development in the future.

relief not only for the deepest areas of the GOM, as indicated in this proposed rule, but also for shallower waters such as the 200 to 800 meter area that was the focus of the 1995 Act, and also for even shallower areas on the shelf. There may be marginal prospects, or more difficult to develop, higher-cost prospects such as high-temperature, high-pressure deep formations in shallower waters that could benefit from cost-effective royalty relief.

In closing, thank you for this opportunity to comment on this important initiative. The Department of Energy strongly supports MMS's efforts to develop new deepwater royalty relief provisions. If you have any questions on these comments or other related issues please call Mr. John Pyrdol of my staff at (301) 903-2773.

Sincerely,

SIGNED

Robert S. Kripowicz
Acting Assistant Secretary For Fossil Energy